MARKET OPPORTUNITY ANALYSIS

ALBERTA AND THE CANADA/U.S.

FREE TRADE AGREEMENT

FINAL REPORT - SUMMARY

Prepared by:

Alberta Economic Development & Trade
Alberta Agriculture
Alberta Career Development & Employment
Alberta Energy
Alberta Federal & Intergovernmental Affairs
ALberta Forestry, Lands & Wildlife
Alberta Technology, Research & Telecommunications
Alberta Tourism
Alberta Treasury

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ECONOMIC DEVELOPMENT
AND TRADE

Office of the Minister

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Like most Albertans, you have probably followed the free trade story as it has unfolded over the past months and years. Now, you are no doubt interested in learning how this historic pact will affect the Alberta economy.

Beyond the immediate benefits of lower prices for consumers and higher disposable incomes, the Agreement would give new impetus to our economic growth and lead to the creation of 30,000 new jobs.

It would also launch a new era for Alberta business. Better access to the United States marketplace would present an outstanding opportunity for business to expand and diversify. Improved security of access would permit the development of long-range strategies which would enable companies to achieve their full potential.

No strangers to the challenges of international marketing, Albertans have already proven that they have the expertise to compete successfully in the global arena. As trade barriers have fallen in the past, our business community has achieved significant gains. With this Agreement in place, we have even greater potential for growth.

The potential is most evident when the impacts of the Agreement are reviewed on a sector-by-sector basis. This document includes such a detailed sectoral analysis and highlights specific trade and investment opportunities which would arise as a result of the Agreement.

I encourage you to review this material, and urge you to support the Canada/ U.S. Free Trade Agreement.

Larry R. Shaben
Minister

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AN EXECUTIVE OVERVIEW

A Bold Step Forward

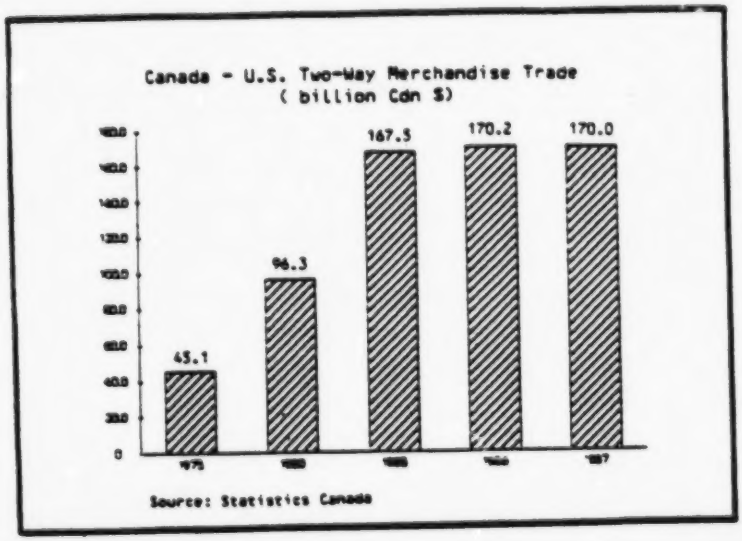
The product of three years of intensive negotiations, the Canada/U.S. Free Trade Agreement represents the most comprehensive trade pact every signed between two countries, and breaks new ground in such areas as agriculture, investment, and services.

Even so, the Agreement does not signal a dramatic change in direction. Canada and the United States already maintain the world's largest two-way trading relationship, estimated at $170 billion in 1987. The Free Trade Agreement represents a logical continuation of the trade liberalization process.

Over the past decades, Canadian and Alberta industries have adjusted effectively to increased competition and have taken advantage of the new opportunities that have followed the reduction of trade barriers. At the same time, our business community remains constrained by existing trade barriers and by the possibility of new barriers being imposed in specific sectors.

The Agreement takes a bold step forward - at once countering protectionist trends and providing Alberta companies with greater freedom to pursue new opportunities throughout the U.S.

Canadian Exports Rise As Barriers Fall



Alberta Is A Trading Province

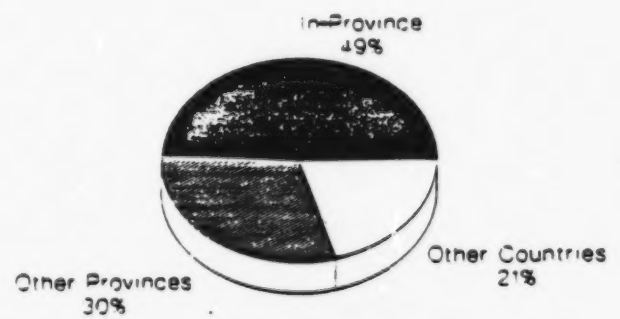
Trade serves as a focal point for Alberta's economic growth. Having the potential to increase our exports is of tremendous importance to our future. Alberta's economy is directly related to our ability to maintain and expand ties with our international trading partners.

We market our products, services, and expertise around the world. In 1987, Alberta exported an estimated $12.8 billion worth of goods and services. This represented approximately 21% of our Gross Domestic Product (GDP).

As a trading province, Alberta has prospered from the removal of barriers to international trade. The elimination of barriers has allowed Alberta businesses to overcome the obstacle of a relatively small domestic market, has boosted economic performance and has increased employment.

Today, as many as 250,000 Albertans are employed as a result of international trade, half directly and half indirectly. It has also been estimated that up to 19,000 new jobs will be created for every billion dollars in new exports. To maintain existing jobs and to create new jobs, we must continue to compete in international markets. Increased trade is vital to continued employment growth.

ALBERTA'S TRADE PICTURE
DISTRIBUTION OF GOODS AND SERVICES, 1986



Source: Alberta Bureau of Statistics
Alberta Economic Development & Trade
Alberta Agriculture

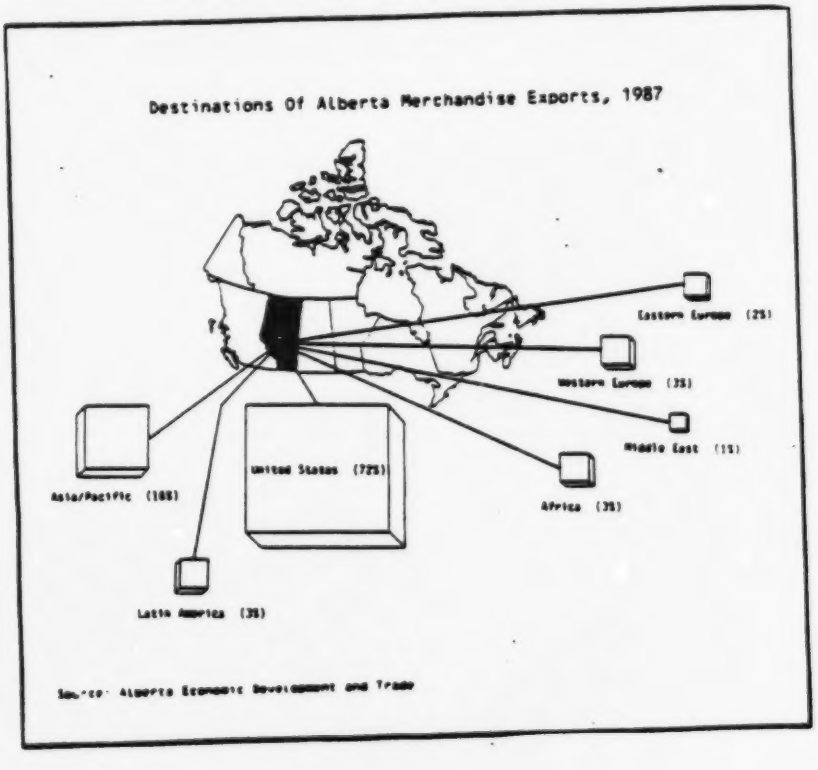
The U.S. Is Our Most Important Trading Partner

Alberta's exports reach destinations around the globe, countries as diverse as Japan, Morocco, the People's Republic of China and Brazil. In fact, Alberta exported goods and services to over 140 different countries in 1987.

For all we have accomplished in developing these new international markets, however, our nearest neighbor remains our most important trading partner. In 1987, the United States accounted for 72% of our total merchandise exports. The same year, the Asia/Pacific region accounted for 16%, while exports to all other countries made up the remaining 12%.

Maintaining access to the U.S. is clearly important to our continued economic growth and prosperity. Both Alberta and Canada view a trade agreement as necessary to counteract U.S. protectionism. With this Agreement in place, we will secure a much stronger relationship with our largest and most valued customer.

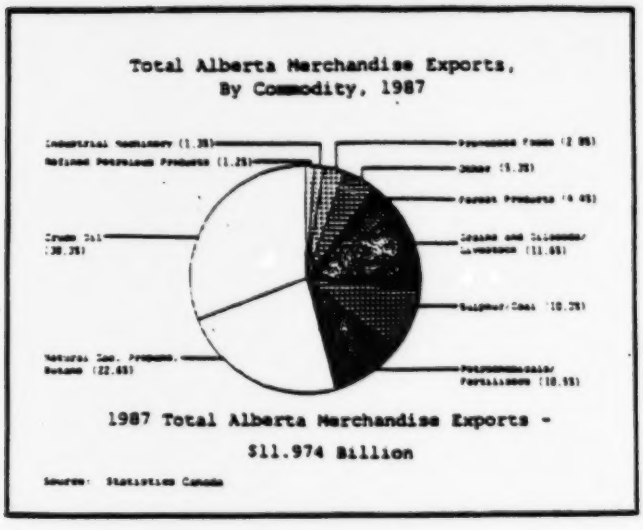
Alberta's International Customers



World Wide Exports

In 1987, Alberta's merchandise exports (not including services) totalled $12 billion. Together, exports of agricultural commodities, petrochemicals, sulphur, coal, forest products, industrial machinery and refined petroleum products accounted for almost $6 billion of this total, almost equal to exports of oil and gas.

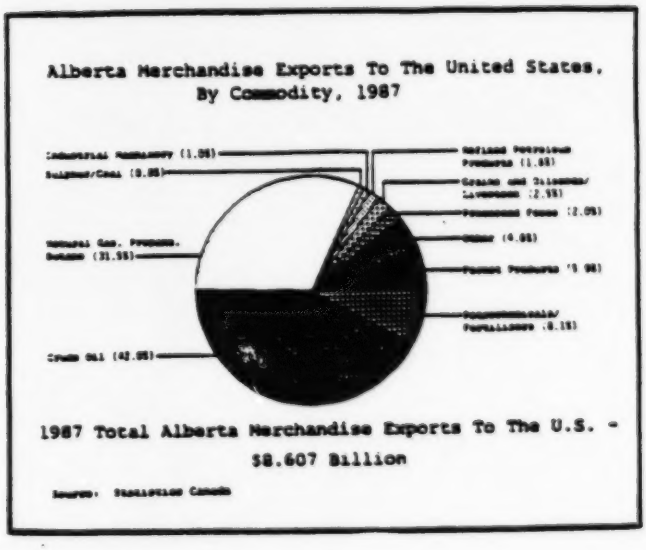
What Alberta Exports



Exports to the U.S.

Merchandise exports to the United States (again excluding services) amounted to some $8.6 billion in 1987. Exports of oil and gas accounted for approximately $6.3 billion of this total, while agricultural commodities, petrochemicals, forest products, refined petroleum products, industrial machinery, sulphur and coal were valued at $1.9 billion.

What We Export To The U.S.


Alberta Merchandise Exports To The United States,
By Commodity, 1987
1987 Total Alberta Merchandise Exports To The U.S. -
$8.607 Billion

WHY ALBERTA WELCOMES THIS AGREEMENT

Our Key Objectives Met

From the outset, the Government of Alberta has been actively involved in the free trade negotiations, participating in numerous federal/provincial meetings and ten First Ministers Meetings at which Canada's position was developed.

In expressing the concerns and interests of Albertans, clear objectives were established for the Agreement. The province's highest priorities were to increase Alberta's access to the U.S. market and to secure this access. These key objectives have been achieved.

Increased Access

The Free Trade Agreement expands our market access to the U.S. through the elimination of tariffs and the reduction of non-tariff barriers to trade. Of particular importance to Alberta, U.S. tariffs on petrochemicals and agricultural products will be eliminated, and non-tariff restrictions on agricultural products will be reduced.

Security of Access

Equally important to the development of long-range strategies is ensuring security of access to these markets. Alberta business and industry will no longer operate under the threat of trade-restrictive measures being unfairly imposed without having recourse to an impartial dispute settlement process.

The Talks Will Continue

While Alberta's highest priorities were met, some areas require further negotiation. The Free Trade Agreement will continue to evolve over time, with working groups being established in key areas. Alberta will remain an active participant in the negotiation process.

MAJOR ECONOMIC IMPACTS

Impacts on Alberta

Perhaps more than any other Canadian province, Alberta will realize significant long-term economic benefits from the Free Trade Agreement. Conservative estimates are as follows.

- Our Gross Domestic Product (GDP) will be 2.5% higher than it would have been without the Agreement.
- The Agreement will create 30,000 new jobs for Albertans. It will also help to maintain existing jobs which might have been lost if such an agreement were not in place.
- Investment will increase by 3% to 4% and will stimulate further growth and additional employment.

In addition to these direct benefits are wide-ranging indirect benefits that will spring from increased economic activity throughout Alberta.

Impacts on Canada

Recent studies indicate the Free Trade Agreement has the potential to enhance Canada's economic growth and improve living standards for all Canadians. Studies indicate that Canada's Gross National Product (GNP) will be between 1.6% and 2.5% higher over the next 10 to 15 years as a result of the Free Trade Agreement. They also indicate that between 120,000 and 251,000 new jobs will be created.

OVERVIEW OF THE AGREEMENT

Tariff Elimination

The two governments have agreed to remove all remaining tariffs and government-imposed customs user fees by January 1, 1998. Tariffs will be eliminated in three phases:

° For some products, tariffs will be eliminated on January 1, 1989.

° For a number of other products, tariffs will be reduced in five equal steps of 20% per year, starting on January 1, 1989, until they are eliminated on January 1, 1993.

° Tariffs on all other products will be eliminated in 10 equal reductions of 10% per year, starting on January 1, 1989 and ending on January 1, 1998. On this date, all products will be tariff-free.

Rules of Origin

Goods manufactured in both Canada and the U.S. will qualify for duty-free tariff treatment. For products using raw materials or components from other countries, goods will qualify only if they have been sufficiently changed either in Canada or the United States. These rules will ensure that only Canadian and U.S. manufacturers will benefit from the Agreement.

Canadian import tariffs on products from other countries will not be affected by the Agreement.

The Agreement also provides that U.S. products sent to other countries (such as Mexican free trade zones) for final processing will not qualify for duty-free entry into Canada.

National Treatment

The fundamental "national treatment" obligation of the General Agreement on Tariffs and Trade has been incorporated within the Agreement.

This will ensure that internal taxes, such as sales or excise taxes, cannot be higher on goods imported from the other country than on domestic goods. It also reinforces the national treatment obligation to measures adopted by provinces or states. This means that no province or state may use internal measures to discriminate against imported products.

Investment

The Federal Government will continue to review direct acquisitions by U.S. investors, but will review only those of $150 million or more by 1992. Guidelines on investment in the energy, transportation and cultural industries have not been changed. Current restrictions in such areas as telecommunications remain in effect. It is estimated that two-thirds of the corporate assets which would be reviewed today will still be reviewed under the Agreement.

Canada's Competition Act remains in place to ensure fair and competitive practices, whether a purchaser is from Canada, the United States or any other country.

Services

The Agreement covers a wide range of "tradeable" services, those which are defined as being market-driven. These include service industries in agriculture, forestry, mining, construction, distributive trades, insurance and real estate, and commercial and related activities.

Other service industries and basic government services are not affected by the Free Trade Agreement. These excluded or protected services are:

° Government-funded services in health, education, and social services
° Transportation services
° Basic telecommunciation services
° Medical and legal services (doctors, dentists, lawyers)
° Child care services

The obligations of the Free Trade Agreement do not require either country to change any existing laws governing services. In changing regulations for covered services, however, each country will be guided by an obligation not to make its regulations any more discriminatory than at present. Any new legislation for services will have to conform fully to the principle of national treatment.

Business Travel Provisions - Both governments will modify their regulations to facilitate business travel between the two countries. The Agreement will allow Canadians to enter the United States to service equipment for as long a service period as provided in the original equipment sales contract.

The Agreement will also make it easier for professionals such as management consultants, accountants and sales personnel, to cross the Canada/U.S. border for temporary business purposes.

Government Procurement

Canada and the United States have agreed to further open up federal government procurement to suppliers in both countries. All designated federal government purchases above $33,000 (Cdn.) will be open to competition unless they are excluded for reasons of national security or excluded under various set-aside programs. The Agreement will not affect provincial, state, or local government procurement practices.

The Agreement would allow access to an additional $4 billion in U.S. Government contracts for Canadian and Alberta business, as contrasted with $650 million in additional Canadian contracts for U.S. firms.

Suppliers who believe they have been treated unfairly in the bidding process will be able to obtain an impartial and timely review through a "bid challenge" mechanism.

Technical Standards

The commitments on technical standards guarantee that each country will fully retain its ability to regulate standards in the areas of health, safety, consumer and environmental protection.

Both Canada and the U.S. will, however, undertake to make their national technical standards more compatible and to encourage further harmonization at the provincial, state and private levels. This should reduce the costs of exporting which arise from the need to meet different standards.

Agriculture

The agricultural provisions of the Free Trade Agreement cover all primary and processed agricultural goods.

- Both governments have agreed not to introduce or maintain export subsidies in their agricultural trade with each other.

- Canada and the United States will exclude each other from their respective meat import laws covering beef and veal, while retaining their rights to reimpose controls to prevent third-country diversion.

- Canadian import licenses for wheat, barley, oats and their products will be eliminated once government support levels in the United States become equal to or less than Canadian government support levels. The United States will not impose quantitative restrictions on Canadian grain and grain product exports, as long as support levels for these grains and their products do not change sufficiently to distort trade.

- The United States has agreed to accept the term "canola oil" as being synonymous with the term "low erucic acid rapeseed oil".

- The United States has agreed not to introduce or maintain any quantitative restrictions or import fees on Canadian products containing 10% or less sugar.

- Payments made under the Western Grain Transportation Act on agricultural goods sold to the United States through west coast ports will cease.

- Canada's existing supply management system for dairy, poultry, and egg products has been retained. New supply management programs will be allowed in accordance with the GATT.

- Both countries have agreed to work together to reduce or eliminate technical regulations and standards which interfere with Canada/U.S. agricultural trade, while recognizing the legitimate need for such regulations and standards to protect human, animal and plant life.

- Both governments have also agreed to work together through the Multilateral Trade Negotiations of the GATT in pursuing the goal of eliminating all trade distorting agricultural subsidies.

Energy

Under the Agreement, Alberta will continue to manage its energy resources. While the Agreement opens up and secures the U.S. market, it does not create a continental energy policy. Policies, laws, regulations, control of resource development, conservation practices and management of resources all remain the constitutional responsibility of Alberta.

Key provisions of the Agreement relating to energy cover crude oil and petroleum products, natural gas, liquified petroleum gas (ethane, propane and butane), coal, electricity, uranium and some primary petrochemicals, such as ethylene.

- Both governments have agreed to prohibit most restrictions on energy exports and imports.

- Export controls in the energy sector can still be imposed for reasons of short supply or conservation. In this case, a proportion of the total supply previously exported to the U.S. would be made available for the duration of existing contracts.

- The Agreement provides a formal right of consultation when either party considers the energy regulatory actions of the other country to be discriminatory.

- Of particular benefit to Alberta, the Agreement allows for existing and future oil and gas exploration and development incentives in order to maintain the resource base.

Alcoholic Beverages

The two governments have agreed to reduce, and where possible eliminate, barriers to trade in wine and distilled spirits. Such barriers may involve discriminatory mark-ups, listing, and distribution practices.

The Agreement does not require changes to beer distribution or beer retailing regulations and practices. However, any further changes to these practices

must not have a greater discriminatory effect than at present. Both countries have also maintained their rights under the GATT with respect to existing measures affecting the pricing, listing and distribution of beer.

Sovereignty and Cultural Industries

Canadian sovereignty is not compromised by the Free Trade Agreement. Our social, cultural and regional policies, our parliamentary system and all other uniquely Canadian aspects of our society remain intact.

None of our social programs, such as the health care system, the Canada Pension Plan, day care programs, Unemployment Insurance or social assistance programs, are affected by the Agreement.

The cultural sector is explicitly exempted from the Agreement. This sector includes film and video, music and sound recording, publishing, cable transmission and broadcasting. All levels of government in Canada will continue to implement programs and policies to support our cultural industries. In addition, the Agreement does not affect existing restrictions on foreign investment in the cultural sector.

Indeed, only with a stronger economy will we be able to provide enhanced levels of support for our cultural community and our social and education system.

Safeguards

The Agreement provides a "snap-back" safeguard for both countries during the 10-year transition period while tariffs are being eliminated. Until 1998, tariffs on products could return to 1988 levels for up to three years, should one country find imports from the other are a substantial cause of serious injury. Only one such action for each product may be taken.

Settlement of Trade Disputes

If requested, a bi-national dispute settlement panel will review final anti-dumping and countervailing duty decisions. This panel will determine if the investigating authority has correctly applied its domestic trade law. The decision of the panel will be binding on both Canada and the United States. There will be strict time limits on the appeal process.

A Canada/U.S. Trade Commission will review any future changes to either country's anti-dumping or countervailing duty laws to determine if they are consistent with the Free Trade Agreement and the GATT.

Disputes in matters other than dumping and countervail will also be resolved by this Trade Commission. Should consultations fail to resolve a dispute, a panel will examine the issue and make recommendations. If both countries agree, disputes may be subject to binding arbitration.

Over the next five to seven years, both countries will work towards negotiating new sets of rules governing anti-dumping and countervailing duties. These rules would replace U.S. trade law as it applies to Canada, and further enhance our access to the U.S. market.

MARKET IMPACTS AND OPPORTUNITIES

How Industry Sees the Agreement

To obtain first-hand reactions to the Agreement's impact on Alberta's business community, representatives of 36 industries within seven major sectors were contacted and asked for their comments. Their responses are summarized in the following table, which indicates whether these effects are expected to be positive, mixed, or neutral (not significant). In addition, the table indicates whether industry expects these effects to arise as a direct result of the Free Trade Agreement, or to arise indirectly as a result of increased economic activity within the province.

When combined with the findings of economic studies, these responses provide a valuable overview of what effects the Free Trade Agreement may be expected to have on Alberta business. This more detailed analysis of market impacts and opportunities is outlined on a sector-by-sector basis in the following pages of this Guide.

How Alberta Industry Sees the Impacts

Sector/Industry	Comments on FTA Effects	
Agriculture and Food Processing		
Livestock and Red Meats	very positive	direct
Dairy and Poultry	positive	minimal
Grains/Oilseeds	positive	direct
Special Crops/Horticulture	positive	direct
Processed Foods	positive	direct
Alcoholic Beverages	mixed	direct
Energy Products		
Crude Oil/Refined Products	positive	direct
Natural Gas	positive	indirect
Natural Gas By-Products	positive	indirect
Coal	positive	indirect
Electricity	positive	indirect
Forest Products		
Sawmills	mixed	minimal/indirect
Panel Products	neutral	direct
Pulp and Paper	positive	indirect
Wood Products	mixed	direct
Industrial and Consumer Products		
Chemicals	positive	direct
Primary Metals	positive	indirect
Fabricated Metals and Machinery	positive	minimal/indirect
Non-Metallic Minerals	positive	minimal/indirect
Transportation Equipment	mixed	direct/indirect
Plastics	positive	direct
Printing/Publishing	positive/neutral	direct/indirect
Fashion/Apparel/Leather	mixed	direct
Furniture and Fixtures	mixed	direct
Construction	positive	indirect
Service Industries		
Business Services	positive	direct/indirect
Oil and Gasfield Services	very positive	indirect
Financial Services	positive	direct/indirect
Wholesale Trade	positive	indirect
Retail Trade	very positive	indirect
Transportation	mixed	indirect
Tourism	positive	direct/indirect
Advanced Technology		
Biotechnology	positive	direct
Computer Services	positive	direct/indirect
Electronics	positive	direct
Telecommunications Equipment	positive	direct

AGRICULTURE AND FOOD PROCESSING

Sector Profile

Long recognized as having one of the world's most productive agricultural economies, Alberta accounts for over 20% of total Canadian agricultural output despite having less than 10% of the country's population.

AGRICULTURE AND FOOD PROCESSING

	Farm Cash Receipts/ Value of Shipments ($ Million)	Employment	Alberta Exports ($ Million) Total	Alberta Exports ($ Million) U.S.
Primary Agriculture	4,000	90,000	1,261	195
Food and Beverage Processing	4,600	15,000	564	245

Alberta's agriculture and food sector:

- Is export-oriented - in light of relatively small Alberta and Canadian markets, 50% of production is exported.
- Exports primary products - wheat accounts for 37% of Alberta's agricultural exports, while barley and canola each account for 11%.
- Exports a growing volume of processed products - particularly to the U.S. Meat products represent 11% and canola products 7% of the value of agricultural exports. There is good potential to markedly increase exports of value-added products.
- Has tremendous production capacity - in both land and agricultural resources.
- Exhibits a high degree of market orientation - among its producers and processors.

Given Alberta's relatively small market base, finding out-of-province customers for its agriculture and food products is of prime importance. Annual out-of-province shipments average about $3 billion, over half of which are out-of-country exports.

* Note: All figures cited within this Guide are for 1987 unless otherwise indicated.

The U.S. continues to be Alberta's largest international customer. In 1987, $440 million, or about one-quarter of Alberta's agriculture and food exports, were destined for U.S. markets. Livestock and meat products represented the largest component of these exports. Other products that continue to enjoy success in the U.S. market include canola oil and meal, forage seeds, cattle hides, peat moss and whiskey.

Effects of the FTA

Overall, Alberta's agriculture and food sector will benefit from the FTA. It provides greater market access, increased market opportunities and enhanced security of access. At the same time, it safeguards existing marketing systems, farm income stabilization programs and price support programs.

The removal of tariffs and the reduction or elimination of technical and other non-tariff barriers will enhance market opportunities and access. Although removal of Western Grain Transportation Act (WCTA) payments on agricultural goods sold to the U.S. through west coast ports may have short term negative implications for some segments of the sector, such as canola crushers, these producers should also benefit over the long term from the removal of tariffs and non-tariff barriers.

The majority of trade in farm inputs between the U.S. and Canada is already duty free. However, Alberta farmers should benefit from the elimination of remaining tariffs, such as those on specialized farm equipment, building materials and tools, antibiotics and some feeds.

As well, the elimination of non-tariff barriers and increasing harmonization of technical regulations and standards involving chemicals, pesticides, feed, fertilizer and seed should allow for a wider selection at competitive rates. Market opportunities arising from the FTA will be primarily in fertilizers and feeds, an area where Alberta exporters have been selling into the U.S. market for a number of years.

Livestock and Red Meats

Alberta Exports ($M):	
Total -	$ 332
U.S. -	$ 274

Industry Profile

Alberta maintains a large livestock population, currently accounting for approximately 32% of Canadian cattle and calves, 15% of all pigs, and 27% of all sheep and lambs.

On the processing side, meat and meat products constitute the largest single component of Alberta's food and beverage industry. Approximately 70 firms are involved in slaughter and meat packing. In 1987, exports, primarily to the U.S., were valued at $127 million for livestock and $205 million for red meats and processed meat products.

Effects of the FTA

Although the immediate impact is expected to be minimal, the Agreement will create a business climate conducive to increased investment. Barriers to trade will be reduced or eliminated in the following ways:

- accepting the equivalence of export certificates
- working towards eliminating U.S. restrictions on importation of animals, embryos, animal products and by-products
- accepting equivalence for veterinary drugs
- eliminating beef import quotas (U.S. Meat Import Law)
- eliminating tariffs over ten years
- eliminating customs user fees
- establishing an open border policy for meat inspection
- a likely move towards harmonized packaging, including nutrient requirements
- possible reduction in domestic trade distortions such as the grain pricing/transportation system
- reduced threat of unjustifiable trade remedy action

Reaction to the FTA

The industry is overwhelmingly supportive of the FTA and believes that the long term impacts on output, employment, investment and exports will be beneficial.

Opportunities

- Beef
- Pork
- Processed Meats
- Cattle
- Hogs
- Livestock Genetics

Dairy and Poultry

Alberta Exports ($M):	
Total -	$ .28
U.S. -	$ .13

Industry Profile

Dairy products constitute the second largest component of the province's food and beverage industry. The total value of factory dairy products was estimated to exceed $500 million in 1987-88.

Alberta's poultry industry, which is under supply management, is comprised of about 300 commercial producers throughout the province with annual sales of approximately $140 million. Because of international commitments associated with the supply management system, exports of Alberta poultry products are not significant. Alberta and Canada are net importers of U.S. chicken breeding stock, fresh chicken, turkey, shell eggs for hatching, eggs in the shell, and powdered eggs.

Effects of the FTA

Although tariffs will gradually be phased out for all poultry and dairy products, the effects on Alberta's dairy, poultry and egg producers will be minimal. It is expected that Alberta poultry exports to the U.S. will remain insignificant. Canadian global import quotas will reflect actual imports over the past five years. There will be no changes to the import quotas for dairy products. New products can be added to the import control list if imports threaten to cause injury to the supply management system.

Reaction to the FTA

Dairy and poultry producers are satisfied by the fact that their supply management systems will remain intact under the FTA, and that Canada has retained the right to add new products to the import control list.

Opportunities

- Specialty Dairy and Poultry Products

Grains, Oilseeds, and their Products

Alberta Exports ($M):	
Total -	$ 1,260
U.S. -	$ 80

Industry Profile

Wheat production in 1987 amounted to just under 6 million tonnes, barley production to 6.9 million tonnes, and oats to 1.2 million tonnes. Canola exceeded 1.6 million tonnes, and now represents the fourth largest cultivated acreage in the province, following wheat, barley and tame hay.

Effects of the FTA

The grain industry will not face quantitative restrictions on sales to the U.S. as long as support levels do not change significantly enough to distort trade. This will provide an opportunity to increase exports of high quality wheat, oats, feed barley, and malting barley.

The elimination of tariffs on grain and grain products, coupled with the removal of Canadian import permits, will facilitate market-sensitive pricing for both grains and processed products. An end to Canada's two-price wheat policy will place Alberta processors in a more competitive position with their U.S. counterparts.

Recognition by the U.S. of the term "canola oil" as being synonymous with "low erucic acid rapeseed oil" will provide the opportunity to greatly increase sales in the U.S. The elimination of tariffs will, over time, more than compensate for the removal of Western Grain Transportation Act rates for canola products moving through west coast ports to the U.S.

Reaction to the FTA

The grains and oilseeds industries are generally positive about the FTA. They welcome the increased access which will be provided by the removal of quantitative restrictions and tariffs, as well as domestic policy changes which will allow Canadian processors to be competitive with their U.S. counterparts.

Opportunities

- High Quality Wheat
- Oats
- Canola Oil and Meal
- Feed and Malting Barley
- Processed Grain Products

Special Crops and Horticultural Products

Alberta Exports ($M):	
Total -	$ 80
U.S. -	$ 32

Industry Profile

The total value of Alberta's special crop exports to the U.S., including honey, pulses, forage seeds, and mustard seed, exceeded $32 million in 1987. Special crop production has been emphasized as one means of diversifying Alberta's agricultural base. The province is well-suited for special crop production, with good irrigated land and a high level of research capability and facilities. Seed potatoes have been the major Alberta horticultural export in recent years. Overall, however, Alberta remains a significant net importer of horticultural products.

Effects of the FTA

The FTA will benefit Alberta by removing all existing tariffs and a number of important non-tariff barriers such as staining requirements for alfalfa and clover seed exported to the U.S. Harmonization of technical standards and regulations will further assist the Alberta horticulture and special crops industries.

The horticulture industry in Alberta is not expected to be significantly impacted by the removal of tariffs. A special "snap-back" provision of the FTA which allows tariffs on fruits and vegetables to be re-imposed under certain conditions provides additional assurance.

Alberta-produced carrots, seed potatoes, onions, mushrooms and cold-weather ornamental shrubs are generally competitive with U.S. products. The elimination of U.S. tariffs will have a positive impact on exports of these products.

Reaction to the FTA

Special crops producers see benefits arising from the FTA in terms of improved market access. Horticultural producers do not expect to be significantly impacted.

Opportunities

- Alfalfa Seed
- Clover Seed
- Onions
- Cold-Weather Ornamental Shrubs
- Carrots
- Seed Potatoes
- Mushrooms

Processed Foods

Alberta Exports ($M):	
Total -	$ 331
U.S. -	$ 169

Industry Profile

Alberta's processed food industry is comprised of a diverse group of businesses and product types. Industries include meat processing, grain and oilseed processing, confectionary products, processed honey, vegetables, specialty products and beverages. In terms of value-added and employment, agri-food processing is the province's largest manufacturing industry.

Effects of the FTA

Generally, the impact of the FTA will be positive. The elimination of both tariff and non-tariff barriers will make Alberta products more competitive in the U.S. as well as in domestic Canadian markets. The majority of Alberta processors should benefit.

The removal of quantitative restrictions on products containing 10% or less sugar will be beneficial for the confectionary industry. However, as U.S. firms are typically large conglomerates with economies of sale and lower unit costs, Alberta companies will need to concentrate on high-end specialty items.

Reaction to the FTA

Alberta's processed food industry is confident that it can take advantage of liberalized trade to further develop market niches in the U.S.

Opportunities

- Processed Meats
- Processed Honey
- Specialty/Convenience Foods

Alcoholic Beverages

Alberta Exports ($M):	
Total -	$ 25
U.S. -	$ 24

Industry Profile

Alberta's alcoholic beverage industry includes breweries, distilleries and wineries. With the exception of distillers, the industry is characterized by low export orientation and protected markets.

Two of Alberta's four wineries are branches of national operations. Almost all grapes and concentrate are imported from California. Alberta wineries do not have the economies of scale, and subsequent cost advantages, of the large U.S. operations.

Alberta's three distillers are all operating with substantial excess capacity. The two larger firms are cost-competitive in both the Canadian and U.S. markets for whiskies. In 1987, Alberta exports of spirits to the U.S., mainly whiskey, amounted to over $22 million.

Effects of the FTA

Under the FTA, the Alberta Liquor Control Board will not be allowed to discriminate against U.S. wines or spirits through listing, distribution or pricing policies. Tariffs on alcoholic beverages will be eliminated over ten years and market access for wines and spirits will be expanded. As a result, Alberta wineries will have to compete on both quality and price, where competition previously centred on price.

Both countries will recognize U.S. bourbon whiskey and Canadian whiskey as distinctive products.

The FTA does not require changes to the Canadian brewing industry. However, future changes to liquor board practices must not further discriminate against U.S. beer.

Reaction to the FTA

Positive (distilling); Negative (wineries).

Opportunities

- Potential for increased Canadian whiskey exports

ENERGY PRODUCTS

Sector Profile

Energy resource production, the largest sector of the Alberta economy, comprises crude petroleum, refined petroleum products, natural gas, natural gas liquids, sulphur, coal, and electricity. Alberta accounts for about 82% of Canadian crude oil production and 87% of Canadian natural gas production.

The energy sector has been a dynamic force in the development of the Canadian and Alberta economies. The U.S. export market has been critical in this development. Exports of crude oil and natural gas constitute Alberta's largest commodity exports to the U.S.

ENERGY PRODUCTS

	Industry Revenues ($ Million)	Employment	Alberta Exports ($ Million) Total	Alberta Exports ($ Million) U.S.
Crude Oil	10,900	44,000	3,623	3,610
Refined Products	3,010	2,500	142	135
Natural Gas	3,900	na	2,307	2,307
Natural Gas Byproducts (Liquids and Sulphur)	1,600	na	1,232	465
Coal	500	2,300	371	3
Electricity	1,600	5,000	10	10

* Employment included under Crude Oil.

Canada's bilateral energy trade with the U.S. in 1987 exceeded $12 billion. Canada exported over $10 billion worth of energy products to the U.S., primarily crude oil and oil products, natural gas, electricity, and uranium. Canada imported about $2 billion worth of energy products from the U.S., consisting mainly of coal, oil, and refined products.

Few restrictions to energy trade currently exist. No Canadian or U.S. tariffs apply to natural gas, sulphur or coal, although

relatively small U.S. tariffs exist on crude oil and petroleum products.

Effects of the FTA

In the short term, Alberta producers will benefit from the elimination of U.S. tariffs and customs user fees on crude oil and products, though the amount involved is less than 1% of the recent price. Of far greater importance to Alberta producers is the protection the FTA provides against future imposition of tariffs.

Over the medium and long term, the indirect benefits are expected to be significant. The major benefit of the FTA is that it reinforces the commitment made by both governments to deregulate oil and gas markets. This commitment is expected to enhance investor and industry confidence.

Export opportunities for crude oil are strengthened by the fact that the FTA prohibits the U.S. from imposing an import tax on Canadian oil. Enhanced access to U.S. markets for Canadian energy exports and the protection of existing and future incentives for energy exploration and development will further enhance investor confidence.

Canada and the U.S. have also agreed to provide national treatment with respect to future regulation of each other's investors.

Under the FTA, the Federal Government's acquisition policy for the oil and gas sector has been "grandfathered," or protected. However, the federal policy cannot be made any more restrictive than the policy that was in place in October 1987. This provision will instill confidence in international interests considering investing in the Canadian oil and gas sector.

Reaction to the FTA

Oil and gas producers and their associations are uniformly positive about the FTA, as the prohibition of discriminatory import and export taxes and restrictions will provide protection against possible future disruptions of exports to U.S. markets.

Crude Oil/ Refined Products

	Crude Oil	Refined Products
Alberta Exports ($M):		
Total -	$ 3,623	$ 142
U.S. -	$ 3,610	$ 135

Industry Profile

Alberta accounts for about 82% of Canadian crude oil production and 21% of the production of refined petroleum products.

Revenues from exports of Canadian light and heavy crudes were $4.9 billion in 1987, an increase of about 30% over 1986. For 1987, Canadian export volumes represented about 13% of total U.S. imports of crude oil.

The deregulation of Canadian oil markets and the removal of Canadian export constraints in recent years have provided a free market environment for crude oil. The implementation of the FTA should allow for even greater integration of North American oil markets.

Existing U.S. import tariffs include: 5.25 U.S. cents/barrel on heavy crude and heavy fuel oil; 10.5 U.S. cents/barrel on light crude oil and distillates; and 52.5 U.S. cents/barrel on gasoline and jet fuel. The U.S. also levies a 0.17% customs user fee on all imports of energy and non-energy goods.

Effects of the FTA

The short term impact will be the removal of relatively low U.S. tariffs, eliminated in five equal annual steps beginning January 1, 1989. The U.S. customs user fee will be completely eliminated by January 1, 1994.

The removal of U.S. import tariffs is expected to increase revenues to Canadian producers by up to $16 million annually in crude oil, and by at least $10 million annually in refined product exports (based on 1987 trade flows). The elimination of the customs user fee will increase oil revenues by a further $10 million per year. These revenue increases for the most part will accrue to Alberta producers.

The greater integration of oil markets under the FTA should enhance investment in heavy oil and oilsands projects. The FTA will also

have a positive impact on the production of refined petroleum products. The refining industry will benefit from increases in demand due to a stronger Canadian and provincial economy.

Elimination of Canadian tariffs on lubricating oils and greases could result in increased U.S. competition in Canadian markets. However, the five year phase-in period allows ample time for industry to make the necessary adjustments.

Reaction to the FTA

All four industry associations - the Canadian Petroleum Association, the Independent Petroleum Association of Canada, the Small Explorers and Producers Association of Canada, and the Petroleum Services Association of Canada - have expressed support for the FTA.

The Agreement has already enhanced industry confidence, as representatives believe that it will provide some protection against possible future disruptions of exports to U.S.

Opportunities

- More secure export markets for crude oil
- Increased investment in conventional oil exploration and development.
- Better long run prospects for oilsands projects

Natural Gas

Alberta Exports ($M):	
Total -	$ 2,307
U.S. -	$ 2,307

Industry Profile

Alberta accounts for 87% of Canadian natural gas production. The U.S. is Canada's only gas export market, and Canada's share of the U.S. market has fluctuated around 5% over the last 20 years.

The deregulation of gas markets in the U.S. and Canada provides the prospect of continued increases in export volumes beyond the peak levels of the late 1970s, as pipeline capacity is fully utilized. In the near term, the U.S. Midwest and Northeast markets provide the most promise for Alberta producers. In the longer term, expanded pipeline capacity to California could allow for further increases in exports.

Effects of the FTA

The FTA is not expected to lead to any structural changes in the Alberta natural gas industry beyond what is occurring as a result of deregulation. Overall, the FTA should reduce the likelihood of government intervention in the gas market and reduce U.S. perceptions of supply risk. This should support the expansion of the industry that is expected as a result of deregulation and further integration of the North American gas market.

The FTA establishes a formal right of consultation with respect to decisions made by Canadian and U.S. energy regulatory agencies. This will provide a process for addressing discriminatory regulatory decisions. From the Canadian perspective, it will also prevent U.S. regulators from implementing policies which single out and disadvantage Canadian gas.

Reaction to FTA

The industry sees the Agreement as beneficial over the long term as it creates the potential to expand exports and may generate new investment for exploration and development.

Opportunities

- Potential for increased natural gas exports
- New investment in gas exploration and development

Natural Gas By-products (Liquids and Sulphur)

Alberta Exports ($M):	
Total -	$ 1,232
U.S. -	$ 465

Industry Profile

Liquid natural gas by-products: Alberta accounts for 83% of the propane and 75% of the butane output in Canada. In 1987, Alberta produced 34 million barrels of propane and 23 million barrels of butane, valued in the field at $355 million and $381 million respectively.

Approximately 60% of the propane and butane production was exported to the U.S. The U.S. is a net importer of these two products and in recent years has relied upon Canadian producers to satisfy the majority of their imports. A projected decline in the butane content in gasoline could lead to a drop in exports unless offset by growth in demand for other uses.

Sulphur: Alberta also produces most of Canada's sulphur and is a major participant in the world sulphur trade. In 1987, production was an estimated 5.4 million tonnes which represented approximately 90% of total Canadian production. While the U.S. is an important buyer of Canadian sulphur, 85% of Canadian exports in 1987 went to other countries.

Effects of the FTA

The FTA is not expected to have any direct effect on trade in natural gas liquids or sulphur since there are currently no U.S. tariffs on these products. The FTA will, however, ensure that the current unrestricted trade conditions continue.

Reaction to the FTA

Overall, the industry is positive about improved investment prospects over the long term, and anticipates that higher production and export levels of natural gas will lead to increased production of liquid by-products and sulphur.

Opportunities

- Investment in gas production and processing
- Increased production and exports of liquids and sulphur

Coal

Alberta Exports ($M):	
Total -	$ 371
U.S. -	$ 3

Industry Profile

The production of marketable coal in Alberta in 1987 amounted to 25.6 million tonnes, an increase of 4% over 1986. Consumption of sub-bituminous coal for electricity generation in Alberta accounted for over two-thirds of the total production. The remaining production included four million tonnes of metallurgical coal, almost all of which was exported (mainly to Japan), and three million tonnes of thermal coal, over half of which was sold to Ontario Hydro.

While the Canadian share of the metallurgical coal export market is about 20%, our share of international thermal coal trade is negligible.

Effects of the FTA

The FTA will ensure that the current unrestricted trade conditions will continue. However, because the U.S. is a large coal producer, exports to the U.S. are expected to remain at current insignificant levels.

The removal of tariffs on mining machinery should reduce capital costs and make Alberta coal more competitive in all markets.

Reaction to the FTA

The Coal Association of Canada has expressed support for the FTA.

Industry representatives do not expect the FTA to interfere with sales of low sulphur Western Canadian coal to Ontario Hydro. Although it costs more to ship than the less expensive, higher sulphur coal available from the U.S., Western Canadian coal is more attractive for environmental reasons.

Opportunities

- Removal of tariffs on mining machinery should help make Alberta coal more competitive in all markets
- Increased demand for thermal coal in Alberta and Ontario due to increased investment and electric energy requirements

Electricity

Alberta Exports ($M):	
Total -	$ 10
U.S. -	$ 10

Industry Profile

Almost all the electricity generated in Alberta is consumed in the province. Currently, there are small net exports to the U.S., amounting to about 1.4% of annual power generated, through the transmission "intertie" with British Columbia.

The possibility of significant exports of electricity depends on having access to transmission lines, as well as on the cost advantage of Alberta coal-fired power.

Effects of the FTA

Under the FTA, the Bonneville Power Administration in the U.S. will be required to modify its Intertie Access Policy. This will provide British Columbia Hydro with treatment comparable to that provided to U.S. utilities located outside the U.S. Pacific Northwest. While the change in itself will not result in immediate opportunity, the possibility of future access holds the promise of significant exports in the future.

To the extent that there are increased export opportunities for British Columbia Hydro, there may be opportunities for Alberta to participate through sales of power to British Columbia. There is also the longer term possibility of exports to California, based on the complementary nature of hydro capacity in British Columbia and coal-fired generation in Alberta.

Reaction to the FTA

Positive, with indirect benefits expected over the long term. The British Columbia Hydro and Power Authority is currently considering an export agency to market both British Columbia and Alberta electricity in California on long term contracts.

Opportunities

- Possibility of exports to the U.S. Pacific Northwest and California

FOREST PRODUCTS

Sector Profile

Alberta's forest products sector has tremendous potential for growth and represents a key component in the province's diversification strategy. New technological applications are playing an important role in the further development of the forest products sector and span such operations as oriented strandboard facilities and chemi-thermo mechanical pulp mills.

The sector makes a significant contribution to the provincial economy. Over 12,000 people are directly employed in the industry, with most of the facilities located in small rural communities in western and northern Alberta. Combined, Alberta primary and secondary forest products industry revenues amount to approximately $1.2 billion.

FOREST PRODUCTS

	Industry Revenues ($ Million)	Employment	Alberta Exports ($ Million) Total	U.S.
Sawmills	320	7,400 *	260	182
Panel Products	300	1,000	177	150
Pulp Mills	410	1,600	372	365
Wood Products	200	2,000	14	12
TOTAL	1,230	12,000	821	711

* Includes logging

Figures cited in the table do not include the chemi-thermo mechanical pulp mill recently completed in Whitecourt, the bleached kraft pulp mill under construction in Peace River, or a major pulp mill expansion. By 1990, these projects will add over 740,000 tonnes per year to Alberta pulp production. In addition, a new facility in Whitecourt will produce 220,000 metric tonnes of newsprint. Together, these projects will create over 1,700 jobs.

Effects of the FTA

Exports to the U.S. are expected to remain strong. Generally, sawmills and pulp products do not face trade restrictions on exports to the U.S. Tariff restrictions on the remaining products will be eliminated over five to ten years.

Sawmills

Alberta Exports ($M):	
Total -	$ 260
U.S. -	$ 182

Industry Profile

Alberta has 250 sawmill facilities, most of which are located in northwestern Alberta. The industry is very competitive with U.S. producers. Currently, it has the lowest delivered wood costs of any region in Canada and exports more than 50% of its production to the U.S. market.

Effects of the FTA

Canada/U.S. trade in dimensional lumber and boards is already duty free. As a result, the direct impact of the FTA on the sawmill industry is expected to be minimal.

Indirect benefits will be driven by increases in residential, industrial, and commercial construction activities in Canada and the U.S.

Reaction to the FTA

Mixed. The industry remains concerned that the 15% federal export charge on shipments to the U.S. will continue under the FTA.

Opportunities

- Increased use of dimensional lumber and boards in value-added specialty products and in residential and commercial projects

Panel Products

Alberta Exports ($M):	
Total -	$ 177
U.S. -	$ 150

Industry Profile

Alberta produces five major panel products; plywood, oriented strandboard, medium density fiberboard, insulation board, and construction paper. As the major market for panel products lies in residential construction and remodeling/repairs, the industry is vulnerable to cyclical swings in the economy.

Given the high tariff rates of 20% into the U.S. and 15% into Canada, trade in plywood is limited.

Oriented strandboard is increasingly being used as a low-cost, high-quality substitute for plywood in the U.S. Approximately 85% of Alberta oriented strandboard production is exported to the U.S.

The application of advanced technology and the abundance of Alberta forest resources has resulted in an extremely competitive Alberta industry for oriented strandboard and fiberboard products.

Effects of the FTA

The FTA will eliminate tariffs on plywood, fiberboard, and oriented strandboard. When the tariff on plywood is removed, it will open a large market for Alberta producers. However, modernization of plants may be required to improve competitiveness.

The FTA also provides for the creation of a panel of experts to review the Canada Mortgage and Housing Corporation's (CMHC) determination regarding the use of C-D grade plywood for CMHC-financed housing. U.S. implementing legislation on the FTA implies the tariff reductions will commence only after harmonized plywood performance standards have been incorporated into both Canadian and U.S. building codes.

Reaction to the FTA

The industry is reserving its position on the FTA until it is determined whether or not C-D grade plywood is allowed into Canada.

Opportunities

- Plywood
- Oriented strandboard for construction, remodeling/repairs
- Medium density fiberboard for furniture

Pulp and Paper Mills

Alberta Exports ($M):	
Total -	$ 372
U.S. -	$ 365

Industry Profile

Alberta exports virtually all of its pulp production to the U.S. Currently, the province has two pulp mills in operation, with a third scheduled to open in late 1988. In 1989 and 1990, additional pulp mills or expansions to existing pulp mills were anticipated to come on stream and nearly double export volumes.

The U.S. dollar price for bleached kraft softwood pulp increased by 35% in 1986 and 19% in 1987. Price increases are expected to continue at a more moderate rate throughout 1988.

Effects of the FTA

Trade in pulp currently does not face trade restrictions.

The FTA creates expanded potential for new investment in Alberta plants producing fine paper, lightweight coated publication paper and similar products, based on sales to both Canadian and U.S. markets.

As Alberta's pulp industry is already both competitive and export-oriented, new capacity additions are expected to lead to increased exports to the U.S. The Agreement is expected to enhance the development of these projects.

Reaction to the FTA

Positive. As a result of the elimination of tariffs on fine paper, there will likely be more vertical integration into paper products.

Opportunities

- Expanded investment potential for fine paper, lightweight coated publication paper, and other paper products
- Enhanced development of new capacity addition projects, increased exports to the U.S.

Wood Products

Alberta Exports ($M):	
Total -	$ 14
U.S. -	$ 12

Industry Profile

This industry is comprised of firms manufacturing wood products such as prefabricated wooden buildings, wooden doors, windows, cabinets, trusses, moldings, and other millworks, wooden boxes, and treated wood products. Most firms are small-scale operations which serve the local market. Very few firms currently export to the U.S.

The industry is cyclical, as it depends to a great extent on residential and commercial construction activities. With the current market trend towards wood products in commercial construction, this market is expected to continue to expand.

Effects of the FTA

The elimination of tariffs under the FTA will increase the competitiveness of U.S. products in the Alberta market. As a result, the FTA is expected to have a marginally negative impact on output and employment in the wood millwork industries (Canadian tariffs on most of these products are less than 10%).

Reaction to the FTA

Mixed. Although industry representatives acknowledge that negative effects may be felt in some areas, they have indicated that the phased elimination of tariffs will provide Alberta manufacturers with adequate time in which to plan and adjust.

Opportunities

- Ready-to-assemble furniture
- Millwork products for repairs/remodeling
- Other value-added specialty products

INDUSTRIAL AND CONSUMER PRODUCTS

Sector Profile

The industrial and consumer products sector includes manufacturing and processing industries which are not directly tied to the advanced technology sector or to the upgrading of resources in agriculture, energy, or forestry.

Industrial Products: All industrial product industries will see increased opportunities arising from the FTA. The chemical and chemical products industry, which is largely export-oriented, is expected to benefit the most from the elimination of U.S. tariffs. In particular, construction of a proposed world-scale ethylene plant and its associated derivative plants would represent approximately $2 billion in new investment, create 7,400 worker-years of employment during construction and 2,000 jobs when fully operational. While a number of factors will determine whether or not the project goes ahead, the FTA improves the climate for this type of investment.

Consumer Products: For the most part, Alberta's consumer product manufacturers tend to be oriented toward serving the local domestic market. These industries will generally be faced with increased competition from U.S. suppliers and will require some adjustments to adapt to the environment associated with the Free Trade Agreement.

INDUSTRIAL AND CONSUMER PRODUCTS

	Industry Revenues ($ Million)	Employment	Alberta Exports ($ Million) Total	Alberta Exports ($ Million) U.S.
Chemical and Chemical Products	2,800	6,300	1,299	722
Primary Metals	830	2,500	57	33
Fabricated Metals and Machinery	1,470	17,500	183	102
Non-Metallic Minerals	620	4,000	18	16
Transportation Equipment	200	2,000	61	37
Plastics	260	2,000	18	17
Printing and Publishing	660	7,000	27	26
Fashion, Apparel, and Leather Goods	130	3,000	6	5
Furniture and Fixtures	130	1,900	15	15
TOTAL	7,100	46,200	1,684	973

Chemical and Chemical Products

Alberta Exports ($M):	
Total -	$ 1,299
U.S. -	$ 722

Industry Profile

Alberta's chemical and chemical products industry is comprised of three sub-sectors.

- Petrochemical and Chemical Fertilizers - 80% of total shipments

  Over 50% of Canada's petrochemical and chemical fertilizer industry is located in Alberta. Alberta production of these chemicals far exceeds Canadian demand. As a result, Alberta producers export a significant portion of their output to U.S. and other international markets.

- Industrial Inorganic Chemicals - 15% of total shipments

  The inorganic chemical industry produces a wide range of "commodity" chemicals for use in major industries such as pulp and paper, mining, and petroleum refining. Less than 10% of output is exported, with most sales in Western Canada.

- Organic and Specialty Chemicals - 5% of total shipments

  A number of small scale producers manufacture a wide range of products, including pharmaceutical chemicals, paints and varnishes, soaps, and rust inhibitors.

Effects of the FTA

Under the FTA, both countries have agreed to eliminate all remaining tariffs on chemicals and chemical products. Beginning January 1, 1989, these tariffs will be phased out in five equal steps. By January 1, 1993, all bilateral trade in chemicals will be duty free.

In those U.S. markets where Alberta petrochemical producers are already competing successfully, the elimination of U.S. tariffs should lead to improved cash flow and higher profit margins. Tariff elimination will also enable Alberta producers to increase their penetration of the U.S. market in areas where they have not previously been competitive.

As Canada/U.S. trade in nitrogen-based fertilizers is already duty free, the FTA is not expected to have a significant impact on Alberta's fertilizer industry.

The tariff reductions agreed to under the General Agreement on Tariffs and Trade (GATT) have already placed as much as 75% of inorganic chemical production in a free trade environment. Since trade in these chemicals is restricted somewhat by their relatively high transportation costs, the FTA will not have a significant impact for producers.

Alberta producers of pharmaceutical chemicals will continue to meet limited demands for high value specialty products in Canadian, U.S., and other international markets. Over the short term, the FTA is not expected to have a significant impact on these operations.

While some negative effects may be felt in other specialty product industries such as paints and varnishes, the phased elimination of tariffs will provide Alberta manufacturers with a period in which to plan and adjust to competition.

Reaction to the FTA

The petrochemical industry strongly supports the FTA, and has stated that it will improve the competitiveness of Alberta's methanol and ethylene-based producers. The extent of the benefits of the FTA may in part be determined by Alberta's new ethane policy and its effect on the availability of competitively-priced ethane feedstock.

Some small specialty chemical producers have expressed concern over increased U.S. competition, but have also indicated that the phased elimination of tariffs should provide sufficient time to adjust.

Opportunities

- Methanol
- Polyethylene
- Ethylene Glycol
- Styrene
- Polyvinyl Chloride
- Vinyl Chloride

Primary Metals

Alberta Exports ($M):	
Total -	$ 57
U.S. -	$ 33

Industry Profile

The primary metals industry in Alberta consists of a relatively small number of firms engaged in the production of iron and steel. The province's only non-ferrous metal manufacturer refines nickel, nickel alloys, and cobalt. Primary exports include oil country tubular goods (pipeline and well casing), structural steel, nickel and nickel products. Exports accounted for less than 8% of total sales in 1987.

Effects of the FTA

The net effect of the FTA on the primary metals industry is expected to be negligible as, with the exception of oil country tubular goods, tariffs are not a significant barrier to trade.

While some opportunities may arise for the primary steel industry, distance to major centres in the U.S. will continue to be a limiting factor in developing new markets.

Reaction to the FTA

Positive. The larger steel companies expect that a better trading atmosphere will reduce U.S. protectionist measures. The industry will benefit both directly and indirectly, with representatives believing that the indirect benefits of increased investment outweigh the direct benefits of reduced trade barriers.

Opportunities

- Oil country tubular goods:
  - oil and gas pipeline
  - well casing
  - drill pipe
- Nickel and nickel alloy products

Fabricated Metals and Machinery

Alberta Exports ($M):	
Total -	$ 183
U.S. -	$ 102

Industry Profile

Firms in this industry manufacture oil and gasfield equipment, construction materials and equipment, agricultural implements, and manufacturing, mining, and forestry equipment. The oil and gasfield equipment industry accounts for over 60% of total production, followed by construction, agriculture, and other resource industry suppliers.

Oil and gasfield equipment manufacturers and agricultural implement manufacturers have developed significant export markets for their products, while most other firms are oriented toward the local market.

Effects of the FTA

As tariffs and customs user fees are eliminated and business access to the U.S. for sales and services improves, output is expected to increase by 5% to 8%.

Reaction to the FTA

Positive. While most firms do not forsee any major changes as a result of the FTA, they expect to remain competitive with U.S. firms and benefit from increased investment activity in Alberta.

Opportunities

- Oil and gasfield equipment valves and fittings
- Rock drill bits
- Fabricated metal buildings and structures

Non-Metallic Minerals

Alberta Exports ($M):	
Total -	$ 18
U.S. -	$ 16

Industry Profile

The non-metallic minerals industry in Alberta consists of manufacturers of cement and cement products, insulation material, gypsum products, clay, and glass products. Exports are a relatively small component, accounting for less than 4% of total industry sales.

The industry is closely tied to investment and construction activity in Alberta and has had to adjust to the lower level of construction expenditures over the past three to four years.

Effects of the FTA

The direct effects of the FTA will be negligible given the low value, high bulk nature of most products, and the limited trade in these products. In the future, there may be new oppportunities for increased cement exports to adjacent states as a result of improved access to U.S. government contracts, including highway projects.

Reactions to the FTA

Positive. The industry does not see any major incursion in the Alberta market from U.S. firms. At the same time, most firms expect to realize indirect benefits from a more buoyant Alberta economy.

Opportunities

- Increased exports of cement
- Increased exports of specialized products such as architectural and pre-stressed concrete products

Transportation Equipment

Alberta Exports ($M):	
Total -	$ 61
U.S. -	$ 37

Industry Profile

While this industry is not large, it offers products in a number of areas including motor vehicle, rail, and aircraft and component parts. The largest sector produces motor vehicle parts and components for offroad vehicles and truck trailers. While most firms have been established to meet specific Western Canadian transportation needs, a few firms, particularly in the aviation sector, have been successful in penetrating markets in the U.S. and overseas.

Effects of the FTA

Effects of the FTA vary among the different sectors of the industry. The motor vehicle and components segment will face the challenge of adjusting to tariff reductions over ten years. The railway parts industry will also find it necessary to adjust to increasing competition. In contrast, aircraft and components manufacturers will experience no effects as the sector is already tariff-free and export-oriented.

Reaction to the FTA

Mixed. Some smaller firms have expressed concerns about increased competition from U.S. suppliers when Canadian tariffs are eliminated.

Opportunities

- Commercial truck trailers and semi-trailers
- Housing and camping trailers
- Custom designed horse trailers

Plastics

Alberta Exports ($M):	
Total -	$ 18
U.S. -	$ 17

Industry Profile

Plastic resins produced by the petrochemical industry are used as inputs in the plastics products industry. Products include molded, extruded or foamed products, film, sheeting, bags, bottles and containers.

Effects of the FTA

It is estimated that the FTA has the potential to increase employment by 3% and output by 5% by 1998. Achieving these levels will require increased export marketing efforts and technological modifications and improvements.

Reaction to the FTA

Positive. Firms did, however, express concerns about standards and labelling, large tariff adjustments (from 13.6% to duty free over ten years for some products), and the need for more sales and marketing staff.

Opportunities

- Foamed and expanded products for the truck industry
- Tanks and containers for the agriculture and oil and gas industries
- Polyvinyl chloride (PVC) products
- Plastic bottles

Printing and Publishing

Alberta Exports ($M):	
Total -	$ 27
U.S. -	$ 26

Industry Profile

Printing and publishing is a labour-intensive industry with three main components: commercial printing, integrated companies, and publishing. Most Alberta-based firms focus on the local market.

Effects of the FTA

Overall, estimates for the long term effects of the FTA on the industry are positive, with output increasing 2% and employment by 1.5% as a result of increased economic activity in the province.

The FTA will eliminate tariffs on printed products over ten years, and will eliminate the U.S. embargo on lottery materials. The FTA also specifies that "cultural industries" involved in the publication, distribution or sale of books, magazines, periodicals, or newspapers are exempt from the Agreement.

It is anticipated that as larger firms make adjustments in response to the FTA, they will more aggressively pursue markets currently dominated by medium-sized firms, and that these companies may be negatively affected.

Reaction to the FTA

Neutral to Positive. Industry representatives maintain that even if the FTA appears to have some negative implications in certain areas, the industry will benefit since the Agreement stimulates general economic growth.

The Alberta industry expects that all companies will be able to adapt to the FTA, although small firms may be vulnerable to increased competition from desk-top publishing within the province.

Opportunities

- The removal of the U.S. embargo on lottery materials may create new opportunities for some Alberta-based commercial printers

Fashion, Apparel, and Leather Goods

Alberta Exports ($M):	
Total -	$ 6
U.S. -	$ 5

Industry Profile

Alberta's fashion, apparel, and leather goods industry produces a wide variety of skiwear, western wear, high fashion, and leather products. Exports of these products are valued at approximately $6 million annually.

Effects of the FTA

All tariffs on clothing and textiles will be removed over ten years. Clothing made from third country imports of fabric will qualify for duty free entry into the U.S. up to specified amounts. Over and above these amounts, products made from third country fabrics and exported to the U.S. will not qualify for duty free entry, but will be eligible for duty drawbacks.

U.S. tariffs on leather boots, gloves, and other leather fashions and products will also be eliminated over a ten year period. It is anticipated that the elimination of the U.S. tariff on Canadian-made saddles, belts, grooming equipment, and tack will create significant new opportunities for manufacturers in Alberta's equine industry.

Reaction to the FTA

Mostly positive. Manufacturers remain concerned over their ability to import cloth and fabrics from offshore suppliers on a competitive basis with U.S. producers.

Opportunities

- Expanded production lines for existing manufacturers
- Expanded production of skiwear, western wear, and high fashion by new companies
- Greater penetration of the U.S. market for leather fashions and products:
  - leather boots and gloves
  - equine products - saddles, belts, grooming equipment, tack, etc.

Furniture and Fixtures

Alberta Exports ($M):	
Total -	$ 15
U.S. -	$ 15

Industry Profile

The furniture and fixtures industry is comprised of three segments; household, office, and other furniture and fixtures. Exports account for 15% of total sales.

Effects of the FTA

The major effect of the FTA will be the elimination of tariffs over five years and the expanded access to U.S. government contracts for items such as furniture.

Reaction to the FTA

Mixed. The elimination of U.S. tariffs will improve Alberta manufacturers' competitiveness in the U.S. market. However, companies which serve the Western Canadian market will also face increased competition from U.S. firms.

Opportunities

- Metal office furniture
- Plastic furniture and fixtures

THE CONSTRUCTION INDUSTRY

Industry Profile

Alberta's construction industry is comprised of several larger firms capable of handling large-scale projects, plus many smaller firms, primarily in the specialty trades.

Of some 1,460 firms, approximately 85% are in these specialty trades which include carpenters, plumbers and electricians. Approximately 13% are general contractors, and another 2% are engineering contractors.

ALBERTA CONSTRUCTION INDUSTRY

	Industry Revenues ($ Million)	Employment
Engineering Construction	3,000	
Building Construction	4,000	
TOTAL	7,000	75,000 combined

The performance of the construction industry reflects the general economic activity in the province. The decline in major project development in the early 1980s, and related drop in building construction activity, has resulted in significant consolidation within the industry in Alberta.

Effects of the FTA

The FTA is expected to have little direct impact on firms in Alberta as there are few existing trade barriers in the industry. U.S. competition in Canada is most often through subsidiaries. Very few Alberta-based companies operate in the U.S.

Direct effects of the FTA will include reduced threshold levels on government contracts open to competitive bidding, improved temporary access for business persons, and removal of tariffs on construction materials and equipment.

Most of the FTA's impact on the construction industry will be indirect, as construction activity in Alberta is driven by investment.

As a result of the FTA, investment in Alberta is expected to increase by 3% to 4%. Construction output and employment should increase by comparable amounts.

Reaction to the FTA

Positive. Industry expects the FTA will create a more positive business climate, resulting in increased investment and construction activity throughout the province.

Opportunities

- The temporary access provisions in the FTA will make it easier for project managers, engineers, architects and other professionals to work on projects in the U.S.
- Alberta engineering and building construction firms may find it easier to market their cold weather technologies and expertise to U.S. contractors

THE SERVICE SECTOR

Sector Profile

The service sector is a major component of the Alberta economy, accounting for approximately 55% of the province's Gross Domestic Product (GDP) and 70% of total provincial employment. All market-based services will see increases in output and employment as a result of the FTA. While exports represent a small portion of total revenues in the service sector, the level of service exports is expected to grow significantly over the next ten years. As services contribute to the productivity and competitiveness of goods-producing industries, they are considered critical to the development of an advanced economy.

Government-Provided Services

Of the total service sector employment, just over one-third of all jobs are in "non-traded services" such as health, education, and public administration. Most of the jobs in these sectors are government activities and services that are publicly funded. As a result, they will not be significantly affected by the FTA.

Market Services

In contrast, most market-driven services are included in the FTA, and will be impacted to varying degrees by its provisions. One notable exclusion from the FTA is the transportation services industry. However, even this industry will be affected indirectly through shifts in commodity flows and an increased level of economic activity.

Market-based services include the following industry groups:

- Business services - architects, engineering, and other technical services, management consultants, advertising consultants, employment agencies, etc.
- Oil and gasfield services
- Financial services
- Retail and wholesale trade
- Transportation services
- Tourism - accommodation and food services, recreation, personal services, etc.

ALBERTA SERVICE INDUSTRIES

	Industry Revenues/Output ($ Million)	Employment
Business Services	2,000	75,000
Oil and Gasfield Services	2,200	25,000
Financial Services	9,400	57,500
Retail Trade	15,000 *	148,000
Wholesale Trade	22,500 *	60,500
Transportation Services	2,800	49,000
Tourism	2,200	74,000
TOTAL	56,100	489,000

* Revenue figures represent total sales.

Business Services

Industry Revenues ($M):	$ 2,000
Employment:	75,000

Industry Profile

Alberta's business services industry consists of firms engaged in architectural, engineering, and scientific services; management consultants; lawyers and accountants; and other business services such as advertising, employment agencies, and security services. Most business service income is derived from other business and government activity.

Effects of the FTA

A number of provisions in the FTA will directly affect this industry. These include:

- Improved access for business visitors, professionals, sales personnel, investors, and intra-company transferees.
- Expanded and more secure access for architects as a result of the agreement reached by the two national associations.
- The accreditation of laboratories by both the U.S. and Canada.

Beyond these direct effects, most of the benefits to business services will be of an indirect nature through increased economic activity in Alberta.

The net effect of the FTA is expected to be positive with employment increasing by 2% and output by 3%.

Reaction to the FTA

Positive. The industry anticipates that business services will benefit indirectly from the FTA through the increased economic activity of other businesses.

Opportunities

- Increased demand for engineering consultants for downstream oil and gasfield activity
- Engineering consultants for future shale-oil projects
- Expansion of business services into adjacent states (e.g. the U.S. Pacific Northwest and Mountain States)
- The new rules for temporary entry of business personnel will provide Alberta business professionals with easier access to U.S. projects

Oil and Gasfield Services

Industry Revenues ($M):	$ 2,200
Employment:	25,000

Industry Profile

The oil and gasfield services industry includes drilling and service rig contractors, geophysical and seismic contractors, and other related support services such as well testing, coring, logging, and chemical treating services.

Alberta firms are recognized world-wide for their expertise in the oil and gas industry. Even though service exports represent less than 5% of total industry revenue.

Effects of the FTA

The oil and gasfield services industry will benefit from the removal of tariffs on the chemicals and equipment used by Alberta-based firms, and by such provisions as improved temporary access for business persons.

The FTA will ensure access to U.S. markets for Canadian oil and gas, which will improve the energy investment climate in Alberta and increase the demand for oil and gasfield services. The projected long term impact of the FTA is a 5% growth in both employment and output.

Reaction to the FTA

Very positive. Industry representatives see most of the benefits as being of an indirect or derived nature.

Opportunities

- Cold weather technologies and related services
- Petroleum engineering services
- Geophysical contractors
- Aerial photography and mapping

Financial Services

Industry Output ($M):	$ 9,400
Employment:	57,500

Industry Profile

Canadian financial industry reforms and deregulation over the past few years have broadened the allowable activities of all segments of the financial services industry. This has resulted in a more competitive industry.

Effects of the FTA

Under the FTA, Canadian banks operating in the U.S. will be permitted to underwrite and deal in securities issues of Canadian governments. This could produce substantial volumes of new business for Canadian banks.

The FTA exempts U.S. bank subsidiaries in Canada from the current ceiling on the size of the foreign bank sector. This is likely to increase U.S. bank competition in Canada.

Financial institutions, other than insurance, are not covered by the dispute settlement procedures of the FTA. Disputes will be settled through consultations between the Federal Department of Finance and the U.S. Department of Treasury.

Reaction to the FTA

Positive. Most financial institutions feel the FTA will have a positive impact on their industry. While direct benefits will be limited, most financial institutions should gain indirectly from increased activity in other sectors of the economy.

Local credit unions and Treasury Branches generally anticipate no impact, while the securities industry is extremely optimistic about the impact of the FTA.

Opportunities

- Expansion of trade financing in Alberta
- Expanded lending opportunities in the U.S.
- Increased work as transfer agents in the U.S.

Wholesale Trade

Industry Sales ($M):	$ 22,500
Employment:	60,500

Industry Profile

The wholesale trade sector is comprised of firms which primarily purchase merchandise for resale to retailers, or to commercial, industrial, institutional, farm, and professional businesses.

The Alberta wholesale sector is characterized by a high degree of competition and low margins. Despite a relatively small provincial market, large Alberta wholesalers are capable of competing with U.S. firms.

Major markets for wholesalers include chains and independent retailers, and industrial end-users in the province. Some specific segments, such as lumber and building materials and the metal products industry are increasing their orientation towards export markets.

Effects of the FTA

Sourcing will be improved as the FTA will facilitate access to new U.S. suppliers. Duty free access to supplies will also lower the cost of manufactured products, both Canadian and U.S.

Overall, the FTA is not expected to alter the competitive position of the provincial wholesale sector. While there will be minimal direct impact on wholesalers, they will benefit indirectly from the province's increased economic activity.

By 1998, the estimated net impact of the FTA is projected to be a 1.5% growth in employment and a 3% growth in output.

Reaction to the FTA

Positive. The industry expects that most of the benefits from the FTA will be of an indirect nature.

Opportunities

- In the long term, Alberta wholesalers may benefit from a southward expansion of the regional distribution market into Montana, Idaho, Wyoming, and parts of Washington
- Wholesalers will also benefit from an increase in consumer demand in Alberta

Retail Trade

Industry Sales ($M):	$ 15,000
Employment:	148,000

Industry Profile

The retail trade sector consists of firms engaged in the purchase of personal and household products for resale to the public, along with businesses providing related services such as installation and repair.

Growth in the retail sector is closely tied to the level of personal disposable income, consumer tastes, and credit availability.

Effects of the FTA

Most impacts on the sector will be indirect benefits arising from increased employment and income in other sectors of the economy. The direct effects of the FTA are not expected to have a significant impact on cross-border activity.

The removal of tariffs on all end products is expected to lead to a decline in the price of consumer goods, resulting in an increase in demand, particularly for non-durable goods.

By 1998, the net effect of the FTA on the retail sector is projected to be a 2.5% growth in employment and a 3% increase in output.

Better access to large-scale U.S. suppliers may lead to the entry of more U.S. low-price, high-volume warehouse businesses and factory outlets in Alberta.

Reaction to the FTA

Very positive. Industry representatives do not anticipate any marked increase in the penetration of U.S. retail firms into Canadian markets, or vice-versa.

Opportunities

- Retailers will benefit indirectly from an increase in consumer demand in Alberta
- Introduction and expansion of newer merchandising concepts such as factory outlet malls, discounters, warehouse wholesalers, and home shopping networks

Transportation Services

Industry Revenues ($M):	$ 2,800
Employment:	49,000

Industry Profile

The transportation services industry supports and is essential to commerce and trade activity in the province.

Transportation modes include rail (CN and CP), bus, air (three national airlines plus smaller regional and charter operations), pipelines (six major transmission utilities transporting oil, gas, and related products), and trucking (a dozen large Alberta firms, plus 6,000 to 7,000 independent owner-operators).

Effects of the FTA

While transportation services are excluded from the FTA, the industry will benefit from:

- The removal of tariffs on inputs such as tractors, trailers, tires, locomotives, and railway cars.
- Quicker cross border movement of goods due to reduced customs restrictions and pre-arrangements.
- Enhanced activity in other sectors of the economy which will increase the demand for transportation services.

The FTA is projected to increase both employment and output by approximately 1% to 2% by 1998.

Reaction to the FTA

Mixed. Transportation services are excluded from the FTA. The trucking and pipeline industries in Alberta supported the inclusion of transportation in the Agreement. Other transportation industries, including rail, bus, and air recognize the challenges associated with competing directly with U.S. firms.

Opportunities

- Increased pipeline volumes and the potential for new pipeline capacity
- Increased demand for trucking services, particularly for the north-south movement of goods

Tourism

Industry Revenues ($M):	$ 2,200
Employment:	74,000

Industry Profile

The tourism industry affects a wide range of businesses in other industries such as food, auto, lodging, amusement, and recreation. In turn, these industries provide amenities and services to residents and visitors alike.

In 1986, Alberta residents accounted for approximately 50% of the province's tourism revenues, other Canadians 29%, U.S. visitors 15%, and other international visitors 6%.

Effects of the FTA

The hospitality industry will benefit from lower prices on materials and supplies when tariffs are removed. Improved tourist access to the Canadian and Alberta markets will occur as a result of reduced restrictions on temporary access for business persons, and the new bilateral consultation mechanism which will eliminate impediments to tourism and identify ways to increase and facilitate travel between the two countries.

The FTA will increase trans-border commerce, leading to increased travel between the U.S. and Canada. The estimated long term impact of the FTA is projected to be a 5% increase in employment and an 8% increase in tourism revenues.

Reaction to the FTA

Positive. However, some concern was expressed that the FTA would result in Canadians substituting a vacation in the U.S. for a vacation in Alberta.

Opportunities

- Potential to draw a larger number of tourists from the established U.S. Pacific Northwest and California markets
- Increased market potential in secondary U.S. markets such as the Northeast, Midwest, and Texas

ADVANCED TECHNOLOGY

Sector Profile

Alberta's advanced technology sector represents a crucial area of activity in the continued diversification of Alberta's economy. The past decade has seen impressive developments made in this sector in terms of growth in the number of firms, expanded areas of research and product development, and further penetration of international markets. The FTA is expected to add impetus to these developments, not only because it will expand access to the U.S. market, but also because it will complement the marketing and development plans most firms have followed to date.

ADVANCED TECHNOLOGY INDUSTRIES

	Industry Revenues ($ Million)	Employment
Biotechnology/Pharmaceuticals	25	250
Computer Services	415	4,400
Electronics	320	3,200
Telecommunications Equipment	495	2,200
TOTAL	1,255	10,050

Effects of the FTA

The FTA will have direct benefits for the biotechnology and pharmaceuticals, electronics, and telecommunications equipment industries. Like other service industries, the computer services industry anticipates that the indirect benefits of an improved economy will exceed the direct benefits.

Biotechnology and Pharmaceuticals

Alberta Exports ($M):	
Total -	$ 5 - $ 25
U.S. -	50%

Industry Profile

While relatively new, the biotechnology and pharmaceutical industry has tremendous potential for Alberta. Within the province, activity is concentrated in the major areas of human products and animal and environmental products.

Effects of the FTA

Under the FTA, tariffs of up to 17% will be eliminated. The impact on the industry is expected to be positive as a result of expanded access to the U.S. market. Alberta sales of human diagnostic and blood treatment products are expected to continue to grow and penetrate new markets.

In the equine industry, Alberta researchers are developing high tech equipment for both diagnosis and therapy. On another front, Alberta biologists continue their breeding research using frozen semen. The elimination of U.S. tariffs on animal diagnostic equipment and other animal health care products will be of significant benefit to Alberta manufacturers.

Reaction to the FTA:

Positive. Industry reactions to the FTA are moderate because the environment in which they operate has relatively few barriers.

Opportunities

- Increased market penetration for synthetic carbohydrate-based products, cancer diagnostic and blood purification products
- Potential for increased sales of animal diagnostic equipment and other animal health care products including magnetic field therapy horse equipment

Computer Services

Alberta Exports ($M):	
Total -	$ 5 - $ 25
U.S. -	50%

Industry Profile

Alberta's computer services industry has evolved rapidly over the past decade, and is comprised of three groups:

- Computer and related services, including firms engaged in data processing, input preparation software and systems service, and other computer services.
- Engineering, geophysical and other software companies engaged in industry-specific software applications.
- Computer hardware manufacturers.

Most of the export activity comes from the latter two areas. Export sales of computer products constitute about 6% of annual industry revenues.

Effects of the FTA

Two major provisions of the FTA will benefit the computer services industry. The removal of the 3.9% Canadian tariff on U.S. computer hardware equipment will reduce the industry's costs. The temporary access for business persons provision will facilitate marketing, after-sales consultation and technical support in the U.S.

Increased competition and penetration from U.S. firms is not expected to pose a major challenge. Depending on the Alberta industry's competitiveness, gains in output and employment may be as high as 5%.

Reaction to the FTA

Positive. The effect of the FTA on smaller service and software firms is not expected to be significant.

Opportunities

- Application specific software, including well-log and other geophysical software
- Broader application software packages, such as those sold over the counter for personal computers
- New markets for existing products in the U.S. Pacific Northwest, Texas, and California

Electronics

Alberta Exports ($M):	
Total -	$ 25 - $ 50
U.S. -	50%

Industry Profile

Alberta's growing electronics industry produces equipment in two major product areas: test/measurement/control systems, and subassemblies/subsystems. Exports account for about 10% of the industry's annual sales.

Effects of the FTA

Current U.S. tariffs on Alberta products vary from 0% to 8%. Output could increase by as much as 5% as a result of the FTA. Alberta firms may also benefit from the expanded access to U.S. government procurement contracts. Adjustments to the FTA will be required, but the industry appears optimistic in dealing with the changes.

Reaction to the FTA

Positive. Most companies compete on the basis of quality and technical specifications, rather than cost.

Opportunities

- Oil and gas product applications

Telecommunications Equipment

Alberta Exports ($M):	
Total -	$ 250 - $ 500
U.S. -	50%

Industry Profile

The telecommunications industry produces tracking equipment, switching and telephone equipment, cellular telephones, data distribution equipment, protocol testers, and supervisory control and data acquisition (SCADA) equipment. The industry is internationally competitive, with sales outside of Canada accounting for more than 50% of total revenues.

Effects of the FTA

Canadian and U.S. tariffs on most telecommunications equipment will be phased out over five to ten years. Telephones and switching apparatus currently face a U.S. tariff of 8.5%. Cellular telephones face a 2% U.S. tariff.

Tariff reductions, combined with security of access, should result in both employment and value of shipments increasing from 2% to 7% as a result of the FTA.

Reaction to the FTA

Positive.

Opportunities

- Increased market penetration of present product mix, especially switching equipment
- Expanded market opportunities in SCADA systems